COMMODITY OUTLOOK
FOR FARMERS
feed

F-2/Feb.

This newsletter, a new service authorized by Congress, is sent to you by USDA. It's designed to help you make production and marketing decisions. If you find it beneficial and would like to continue receiving it, return the form on the back with your name and address, if you haven't already done so. All newsletters in this series will be issued as warranted at critical times throughout the year. Any comments as to how we can make this letter more useful to you as a producer are most welcome.

Perhaps you were one of the farmers who recently filled out a USDA questionnaire on your cropping plans. In any event, you'll be interested in what that survey shows.

Basically, it indicates that, as of January 1, most feed grain producers were not planning to participate in the 1978 set-aside program, announced last November tentatively at 10 percent. But remember that actual plantings often differ considerably from farmers' early intentions. And this year, there is still a great deal of uncertainty over the new program. We'll have an update on the situation in the April 13 Prospective Plantings report.

Here, in a nutshell, is what the January 1 planting intentions survey shows:

- Intended corn plantings are 81 million acres, down only about 2 percent from 1977.
- Sorghum would total 17.5 million acres, up 3 percent from 1977.
- Prospective barley acreage, at 10.6 million, would remain virtually the same as last year.
- Planned oat acreage is down 1 percent, to 17.6 million acres.
- Soybean acreage, slated at 63.9 million, is up 8 percent.

More Big Crops Possible

So what do all these figures mean, assuming that growers carry through with their plans? They mean that the 1978 feed grain harvest could be another big one if the weather is good. And with bulging supplies on hand and generally ample moisture over much of the grain belt, prospects for prices of new crop feed grains would not be very encouraging.

Let's look at the leading feed grain--corn. The odds favor good yields again: Subsoil moisture is mostly adequate to surplus in the Corn Belt, so timely rains this summer will be less critical than last year. This could spell another bumper crop, perhaps the fourth straight record.

Moisture conditions also are generally good abroad, and if big crops are harvested, this could hurt our exports. So right now, the prospect for stronger prices isn't bright. For example, new crop corn futures at Chicago have run between \$2.26 and \$2.31 a bushel since early January, meaning a farm price of around \$2.00.

Approved by the World Food and Agricultural Outlook and Situation Board and published by the Economics, Statistics, and Cooperatives Service, USDA. February 1978.

Program Provisions

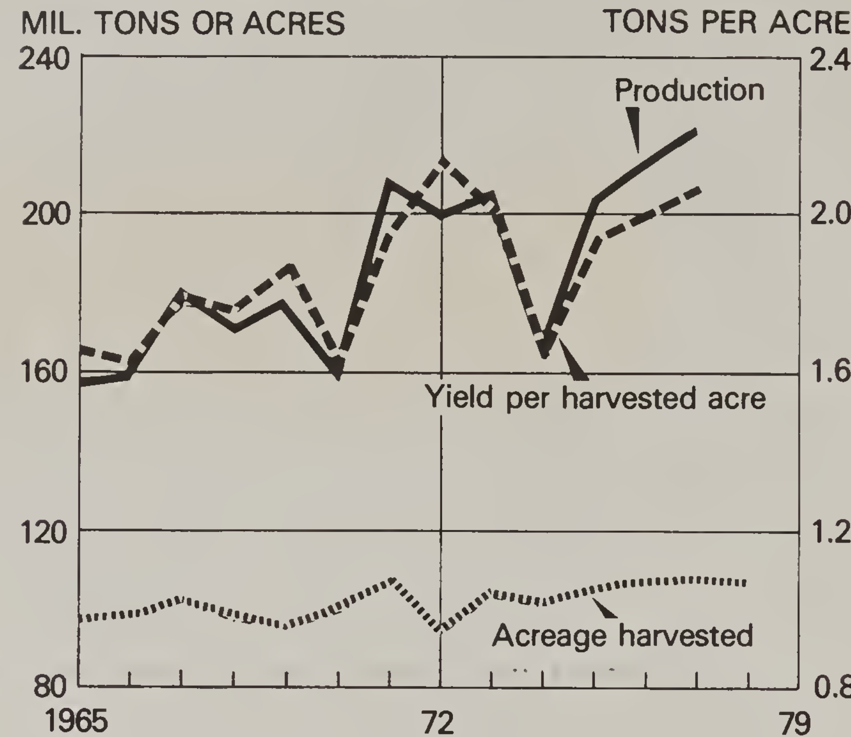
With the weak feed grain price picture for 1978/79, you may also want to look again at the feed grain set-aside program. Aside from the loan protection, for which all your production will be eligible if you participate, you can also get other benefits. These include income supporting target price payments and insurance against prevented planting or production disaster. So you can recover at least a part of your production expenses. The 1978 target price for corn is \$2.10, and while those for sorghum and barley have not been set yet, they probably will be around the 1977 levels of \$4.07 a cwt. for sorghum and \$2.15 a bushel for barley.

Keep in mind that the required acreage set-aside part of the feed grain program is tentative. USDA could revise this when more is known about world supplies and demand prospects and the extent of farmer interest in the program. Watch for an announcement in the latter part of February. All the more reason to stay flexible in your cropping plans.

Time for Final Set-Aside Choice

Even if USDA sticks with a set-aside requirement, you will still have considerable time to decide whether or not to sign up. Here's how it works: During March-April, sign an intent to participate in the program at your county ASCS office. In the meantime, you can plant your feed grain crops and have acreage ready to designate as set-aside with an approved cover crop. You make the final set-aside designation in the summer. Only then must you decide whether or not you want to stay in the program.

FEED GRAIN ACREAGE AND PRODUCTION



1978 BASED ON JANUARY 1 PROSPECTIVE PLANTINGS

PLANTINGS OF MAJOR CROPS

Crop	1976	1977	Indicated 1978[1]	Change 1977/78
	Million acres			*Percent*
Corn	84.4	82.7	80.9	-2.1
Sorghum	18.4	17.0	17.5	+3.2
Barley	9.2	10.6	10.6	-0.3
Oats	16.7	17.8	17.6	-1.2
Feed grains	128.7	128.1	126.6	-1.2
Durum wheat	4.7	3.2	4.2	+31.2
Other spring wheat	17.8	15.6	13.7	-12.2
Total spring wheat	22.5	18.8	17.9	-4.8
Winter wheat	57.7	56.0	48.1	-14.0
Total wheat	80.2	74.8	66.0	-11.8
Soybeans	50.2	59.1	63.9	+8.2
Upland cotton	11.6	13.6	12.6	-7.3
Flaxseed	1.1	1.5	1.3	-15.6
Sugarbeets	1.5	1.3	1.3	+4.5
Rye	2.7	2.7	2.9	+7.8
Rice	2.5	2.3	2.5	+9.8
Total	278.5	283.4	277.1	-2.2

[1] Estimated plantings as of December 1 for winter wheat and rye. January 1 planting intentions for other crops for 34 States adjusted upward to a U.S. total acreage.

There are some tradeoffs, though. If you stay out of the program you are free to plant all you can of the crops you choose, but you are gambling that the loan rate will still support the market. Remember, too, that late last summer before the \$2.00 loan level became effective, corn was running as low as \$1.50. Since the 1977 harvest began, and loan placements have been heavy, prices have picked up some. But if relatively few growers are

eligible for loans in the fall of 1978, the $2.00 loan level won't be an effective price floor.

Your 1977 Crop Marketing Strategy

Right now, you're probably trying to decide how to market your remaining 1977 feed grain. Your best bet will depend a lot on what you think prices will be between now and the 1978 harvest.

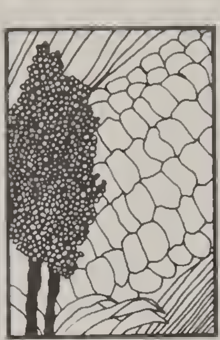
If you look for grain prices to stay about the same, it wouldn't make much difference whether you sold your crops now or later, unless you could avoid further storage costs by selling now. You might want to consider contracting for future delivery, but present contracts for March and May delivery are only moderately above current cash prices, perhaps enough to eke out storage charges.

On the other hand, let's say you look for grain prices to strengthen before the next harvest--due perhaps to bad weather here or in other countries during the growing season, or to a big boost in livestock feeding. Then you would want to hold onto your grain. And if you need cash now, you can borrow about $2.00 a bushel on your corn, $1.90 on sorghum, $1.63 on barley, and $1.03 on oats, by putting your grain under Government loan.

Here's how it works: Costs to you would be 6-percent interest plus storage costs. You would pay the interest and redeem the loan if prices rose enough to make that pay, keeping any extra return above your storage costs. However, if prices didn't rise that much, or if they declined, you could deliver the grain to the Government. You wouldn't be charged the interest on your loan, and your storage costs would stop. Either way, the costs of a Government loan might be worth it. That would allow you to wait for anticipated price rises as well as protect you against declines. You have until March 31 to apply for loan on your 1977 oat and barley crops and until May 31 on your corn and sorghum.

If you think grain prices will decline between now and harvest, you probably will want to sell your crops soon or put them under Government loan. You might consider any storage costs connected with a loan as the cost of keeping control of your grain so you can benefit if prices turn up. Again, however, prices would have to rise enough to make it worthwhile for you to pay the interest and redeem your loan.

Another option: 1976 and 1977 grain under Government loan is eligible for the 3-year grain reserve program when loans mature (9 months from date of loan). This is something you will want to consider, but you don't have to make a decision now. Remember though, you get a storage payment each year. This year, it is 20 cents per bushel (15 cents for oats). You would agree to keep your grain in the reserve until prices were 125 percent of whatever the loan rate is at the time: With the loan rate of $2.00 for corn, that would be $2.50. Loans will be called when prices reach 140 percent of the loan rate--$2.80 for corn this year. This reserve probably will take most of the excess grain out of the market.



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Price Outlook

The USDA outlook for feed grains calls for prices to strengthen some during the next several months. Here's why:

- Heavy participation in Government loan programs and use of the reserve will isolate part of the large supply from the market.
- Domestic feeding will be up 5-10 percent from last year.
- Export sales and shipments are expected to be unusually heavy.

Any substantial changes in these estimates would, of course, alter the price outlook. For example, of special importance is how the 1978 crops in the Southern Hemisphere shape up.

The growing and harvesting seasons there are opposite of ours, so their crops will affect the U.S. export outlook over the next several months. Argentine and South African feed grain production combined is much smaller than ours, but a far larger part of it is exported. At present, the outlook is for Southern Hemisphere feed grain crops to be about 8 percent below 1977.